

November 2006

## **Flash Report**

# The Employees' Retirement System of the County of Milwaukee

**MERCER**

Investment Consulting

## **Trustees' Summary**

The Total Fund had an aggregate market value of approximately \$1.6 billion at the end of November. The Total Fund gained 2.4 % during the month, leading the Reference Index by 20 basis points.

The large cap domestic equity market, as measured by the Russell 1000 Index, advanced 2.1% during the month and small cap equity, as measured by the Russell 2000 Index, gained 2.6%. Value outperformed growth in both the large cap and small cap arenas.

The international equity markets gained 3.0% during November, as measured by the EAFE Index of developed markets. Emerging market equities, as measured by the MSCI Emerging Markets Index, advanced 7.4%.

The investment-grade fixed income market, as measured by the Lehman Aggregate Index, increased 1.2% during the month. High yield issues led the broad market gaining 1.6%, as measured by the Merrill Lynch High Yield Index.

## **Recommendations and Comments**

- The Fund is currently underweight core fixed income and slightly overweight high yield fixed income, relative to the policy.
- \$10 million was sourced from the mid cap segment of the Plan (Artisan, EARNEST and Hotchkis & Wiley) during November to fund benefit payments.
- JP Morgan will give a due diligence presentation during the December meeting.

**MANAGER REPORTED PERFORMANCE**  
**As of November 30, 2006**

	Assets (\$ millions)	November	Year To Date	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Since Inception	Inception Date
Total Fund (1)	1,604.27	2.4	13.4	15.4	13.7	11.2	8.1	9.4	–	
vs. Composite Market Index		2.2	12.8	14.6	12.0	9.8	6.6	8.7	–	
CPI + 4% (1 Month in Arrears)		-0.2	5.9	5.3	6.9	6.6	6.6	6.5	–	

**LARGE CAP VALUE EQUITY MANAGER**

Boston Partners	165.61	2.8	17.0	18.7	17.9	10.2	10.5	10.8	12.8	8/1/95
Boston Partners - Net		2.8	16.8	18.5	17.7	9.9	10.3	10.5	12.5	
vs. Russell 1000 Value + 1%		2.4	20.5	21.3	17.5	11.9	8.5	11.6	13.5	
S&P 500 + 1%		2.0	15.1	15.2	12.8	7.1	2.8	9.1	11.2	
CPI + 6.5% (1 Month in Arrears)		0.0	8.5	7.8	9.4	9.1	9.1	9.0	9.0	

**LARGE CAP GROWTH EQUITY MANAGER**

Mellon Capital Management - Ru 1000 Growth Index	105.12	2.0	8.8	8.4	8.0	2.7	N/A	N/A	0.6	5/31/01
Mellon Capital Management - Ru 1000 Growth Index - Net		2.0	8.7	8.4	8.0	2.6	N/A	N/A	0.6	
vs. Russell 1000 Growth		2.0	8.7	8.4	8.0	2.6	-3.6	5.2	0.6	

**LARGE CAP EQUITY INDEX**

Mellon Capital Management - S&P 500	117.89	1.9	14.2	14.3	11.9	6.1	1.8	8.1	11.0	4/13/95
Mellon Capital Management - S&P 500 - Net		1.9	14.2	14.2	11.8	6.1	1.8	8.1	11.0	
vs. S&P 500		1.9	14.2	14.2	11.8	6.1	1.8	8.1	11.0	

**MID CAP VALUE EQUITY MANAGER**

Hotchkis & Wiley	34.00	3.3	15.8	18.2	N/A	N/A	N/A	N/A	15.4	2/18/05
Hotchkis & Wiley - Net		3.2	14.9	17.2	N/A	N/A	N/A	N/A	14.5	
vs. Russell Mid Cap Value + 1%		3.3	27.2	21.2	21.0	17.6	15.6	14.5	18.5	
CPI + 5.7% (1 Month in Arrears)		-0.1	7.8	7.0	8.6	8.3	8.3	8.2	8.8	

**MID CAP GROWTH EQUITY MANAGER**

Artisan Partners	34.22	4.2	10.9	12.0	13.4	8.3	N/A	N/A	5.8	6/12/00
Artisan Partners - Net		4.2	10.1	11.0	12.5	7.5	N/A	N/A	5.0	
vs. Russell Mid Cap Growth		3.9	11.7	12.9	13.5	9.2	3.1	8.5	-0.9	
CPI + 5.7% (1 Month in Arrears)		-0.1	7.8	7.0	8.6	8.3	8.3	8.2	8.2	

(1) Total Fund returns represent actual returns through 9/30/2006 and estimated performance thereafter.

Policy Measures are Highlighted

**MANAGER REPORTED PERFORMANCE**  
**As of November 30, 2006**

<b>MID CAP CORE EQUITY</b>	<b>Assets (\$ millions)</b>	<b>November</b>	<b>Year To Date</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>7 Yrs</b>	<b>10 Yrs</b>	<b>Since Inception</b>	<b>Inception Date</b>
EARNEST Partners	34.32	2.7	11.9	12.9	N/A	N/A	N/A	N/A	14.3	2/18/05
EARNEST Partners - Net		2.7	11.3	12.1	N/A	N/A	N/A	N/A	13.6	
vs. Russell Mid Cap Index + 1%		3.7	16.2	17.5	18.2	14.8	11.7	13.0	16.7	
CPI + 5.7% (1 Month in Arrears)		-0.1	7.8	7.0	8.6	8.3	8.3	8.2	8.8	
Reinhart & Mahoney	13.10	2.6	20.5	21.1	N/A	N/A	N/A	N/A	17.1	2/18/05
Reinhart & Mahoney - Net		2.4	19.7	20.4	N/A	N/A	N/A	N/A	16.5	
vs. S&P 400		3.2	10.9	11.6	13.9	12.1	11.1	13.5	13.0	
CPI + 5.7% (1 Month in Arrears)		-0.1	7.8	7.0	8.6	8.3	8.3	8.2	8.8	
<b>SMALL CAP EQUITY MANAGERS</b>										
Westfield Capital Management	49.57	3.2	12.6	12.7	10.0	11.0	N/A	N/A	6.4	2/6/01
Westfield Capital Management - Net		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
vs. Russell 2000 Growth		2.4	13.6	13.4	10.8	8.3	2.1	5.1	5.5	
CPI + 5.9% (1 Month in Arrears)		-0.1	7.9	7.2	8.8	8.5	8.5	8.4	8.4	
AQR	43.40	3.4	N/A	N/A	N/A	N/A	N/A	N/A	5.9	10/2/2006
AQR - Net		3.4	N/A	N/A	N/A	N/A	N/A	N/A	5.9	
vs. Russell 2000 Value		2.9	22.4	21.5	17.5	16.6	16.6	13.5	2.9	
Russell 2000 + 2%		2.8	18.0	19.4	16.2	14.7	11.5	11.7	2.8	
CPI + 5.9% (1 Month in Arrears)		-0.1	7.9	7.2	8.8	8.5	8.5	8.4	-0.1	
<b>INTERNATIONAL EQUITY MANAGERS</b>										
Capital Guardian	91.44	2.1	17.9	25.6	19.6	13.9	5.7	11.1	11.0	9/1/94
Capital Guardian - Net		2.0	17.4	25.0	19.0	13.3	5.2	10.6	10.4	
vs. EAFE + 1%		3.1	23.9	29.7	23.2	15.9	6.6	8.6	8.4	
CPI + 6.7% (1 Month in Arrears)		0.0	8.7	8.0	9.6	9.3	9.3	9.2	9.2	
Grantham, Mayo	161.73	3.0	22.9	29.4	25.8	23.2	14.5	12.8	12.5	4/13/95
Grantham, Mayo - Net		3.0	22.1	28.5	24.9	22.3	13.7	12.0	11.7	
vs. EAFE + 1%		3.1	23.9	29.7	23.2	15.9	6.6	8.6	8.7	
CPI + 6.7% (1 Month in Arrears)		0.0	8.7	8.0	9.6	9.3	9.3	9.2	9.2	

Policy Measures are Highlighted

**MANAGER REPORTED PERFORMANCE**  
**As of November 30, 2006**

<b>INTERNATIONAL SMALL CAP EQUITY MANAGER</b>	<b>Assets (\$ millions)</b>	<b>November</b>	<b>Year To Date</b>	<b>1 Yr</b>	<b>3 Yrs</b>	<b>5 Yrs</b>	<b>7 Yrs</b>	<b>10 Yrs</b>	<b>Since Inception</b>	<b>Inception Date</b>
Capital Guardian	63.44	3.7	17.8	28.9	32.3	24.5	10.2	N/A	11.9	10/31/97
Capital Guardian - Net		3.7	17.2	28.3	31.6	23.8	9.6	N/A	11.3	
vs. MSCI World Ex U.S. Small Cap + 1%		4.3	15.2	24.1	24.6	21.3	12.0	7.7	10.2	
CPI + 6.9% (1 Month in Arrears)		0.0	8.8	8.2	9.8	9.5	9.5	9.4	9.4	
<b>CORE FIXED INCOME MANAGERS</b>										
JPMorganChase	112.28	1.1	5.2	6.3	N/A	N/A	N/A	N/A	6.6	11/1/05
JPMorganChase - Net		1.1	5.0	6.1	N/A	N/A	N/A	N/A	6.4	
vs. LB G/C + 0.5%		1.2	5.0	6.1	4.5	5.7	7.1	6.7	6.1	
LB Aggregate + 0.5%		1.2	5.4	6.4	4.7	5.5	7.0	6.7	6.4	
CPI + 2.6% (1 Month in Arrears)		-0.3	4.9	3.9	5.5	5.2	5.2	5.1	3.9	
Mellon Capital Management	219.95	1.2	5.0	6.0	4.3	5.1	6.5	6.3	6.2	1/31/96
Mellon Capital Management - Net		1.2	4.9	5.9	4.2	5.0	6.5	6.2	6.1	
vs. LB Aggregate		1.2	4.9	5.9	4.2	5.0	6.5	6.2	6.1	
Loomis, Sayles	99.35	1.8	6.2	9.1	7.2	9.3	9.9	8.4	10.0	6/30/91
Loomis, Sayles - Net		1.8	6.1	9.0	7.1	9.2	9.7	8.3	9.9	
vs. Fixed Income Reference Index + 0.5% (1)		1.2	5.4	6.4	4.7	5.5	5.5	6.8	8.1	
LB Aggregate + 0.5%		1.2	5.4	6.4	4.7	5.5	5.5	6.7	7.9	
CPI + 2.6% (1 Month in Arrears)		-0.3	4.9	3.9	5.5	5.2	5.2	5.1	5.4	

(1) The Fixed Income Reference Index consists of the 50/50 benchmark until May 1999 and the Lehman Brothers Aggregate Index thereafter.

Policy Measures are Highlighted

**MANAGER REPORTED PERFORMANCE**  
**As of November 30, 2006**

<u>HIGH YIELD FIXED INCOME MANAGER</u>	<u>Assets</u> <u>(\$ millions)</u>	<u>November</u>	<u>Year To</u> <u>Date</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>	<u>7 Yrs</u>	<u>10 Yrs</u>	<u>Since</u> <u>Inception</u>	<u>Inception</u> <u>Date</u>
Loomis, Sayles	146.51	2.0	7.7	11.2	9.9	12.1	10.3	9.2	12.4	11/30/82
Loomis, Sayles - Net		2.0	7.6	11.1	9.8	12.0	10.2	9.1	12.3	
vs. Merrill Lynch High Yield + 1.5%		1.7	11.8	13.0	10.3	11.0	8.7	8.3	N/A	
CPI + 5.0% (1 Month in Arrears)		-0.1	7.1	6.3	7.9	7.6	7.6	7.5	N/A	
<u>REAL ESTATE MANAGERS</u>										
ING Clarion Real Estate Securities	81.04	4.9	39.7	40.7	30.5	25.9	24.2	N/A	15.6	1/13/97
ING Clarion Real Estate Securities - Net		4.8	39.2	40.2	30.1	25.4	23.7	N/A	15.1	
vs. Wilshire REIT Index + 1%		4.9	40.1	40.4	30.6	26.1	25.2	17.8	16.7	
MSCI US REIT Index + 1%		4.8	38.4	39.3	29.2	25.3	24.0	16.8	15.7	
CPI + 5.9% (1 Month in Arrears)		-0.1	7.9	7.2	8.8	8.5	8.5	8.4	8.4	
<u>VENTURE CAPITAL MANAGERS</u>										
Adams Street Partners (1)	18.30	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	10/1/92
Adams Street Partners (1)	1.70	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	1/2005
Progress (1)	0.80	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	7/1/95

(1) Market value is as of June 30, 2006

Policy Measures are Highlighted

**ASSET ALLOCATION**  
**As of November 30, 2006**

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
<b>Total Large Cap Equity</b>	<b>24.2 %</b>	<b>20.0 %</b>	<b>17.0 %</b>	<b>25.0 %</b>
Boston Partners	10.3			
Mellon Capital Russell 1000 Growth	6.6			
Mellon Capital S&P 500	7.3			
<b>Total Medium Cap Equity</b>	<b>7.2 %</b>	<b>6.0 %</b>	<b>4.0 %</b>	<b>7.5 %</b>
Artisan Partners	2.1			
Hotchkis & Wiley	2.1			
EARNEST Partners	2.1			
Reinhart & Mahoney	0.8			
<b>Total Small Cap Equity</b>	<b>5.8 %</b>	<b>5.0 %</b>	<b>3.0 %</b>	<b>6.5 %</b>
Westfield	3.1			
AQR	2.7			
<b>Total International Equity</b>	<b>15.8 %</b>	<b>16.0 %</b>	<b>11.0 %</b>	<b>21.0 %</b>
Capital Guardian	5.7			
Grantham, Mayo	10.1			
<b>Int'l Small Cap Equity</b>	<b>4.0 %</b>	<b>4.0 %</b>	<b>0.0 %</b>	<b>7.0 %</b>
Capital Guardian	4.0			
<b>Venture Capital</b>	<b>1.3 %</b>	<b>3.0 %</b>	<b>0.0 %</b>	<b>5.0 %</b>
<b>TOTAL EQUITY</b>	<b>58.3 %</b>	<b>54.0 %</b>	<b>37.0 %</b>	<b>74.0 %</b>

**ASSET ALLOCATION**  
**As of November 30, 2006**

<u>Role</u>	<u>Current Allocation</u>	<u>Current Policy</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
<b>Total Core Fixed Income</b>	<b>26.9 %</b>	<b>35.0 %</b>	<b>31.0 %</b>	<b>41.0 %</b>
JP Morgan	7.0			
NCM	0.0			
Mellon Capital	13.7			
Loomis, Sayles	6.2			
<b>High-Yield Fixed Income</b>	<b>9.1 %</b>	<b>7.0 %</b>	<b>5.0 %</b>	<b>9.0 %</b>
Loomis, Sayles	9.1 %			
<b>Cash</b>	<b>0.7 %</b>	<b>1.0 %</b>	<b>0.0 %</b>	<b>5.0 %</b>
<b>TOTAL FIXED INCOME</b>	<b>36.7 %</b>	<b>43.0 %</b>	<b>34.0 %</b>	<b>55.0 %</b>
<b>REAL ESTATE</b>	<b>5.1 %</b>	<b>3.0 %</b>	<b>0.0 %</b>	<b>7.5 %</b>
<b>ALTERNATIVE INVESTMENTS</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>
<b>TOTAL</b>	<b>100.0 %</b>	<b>100.0 %</b>		



AA+

AA1/AA2

AA-

BB

**Mercer Ra  
Current M**

<b><i>Large Cap Eq</i></b>	<b>Mercer Rating</b>
Boston Partners	A
Mellon Russell 1000 Growth	A
Mellon S&P 500	A
<b><i>Mid &amp; Small Cap Eq</i></b>	
Artisan	B+
Hotchkis & Wiley	A
EARNEST Partners	B+
Reinhart & Mahoney	B
Westfield	B+
AQR	A
<b><i>Int'l Eq</i></b>	
Cap. Guardian	B+
Grantham, Mayo Intl Intrinsic Value	A
Grantham, Mayo Intl Small Company	A

**The Employees' Retirement System of the County of Milwaukee  
Proposed Investment Manager Due Diligence 2006**

<u>Date</u>	<u>Managers Invited to Present</u>
18-January	Hotchkis & Wiley
08-February	Reinhart & Mahoney and EARNEST Partners
15-February	Boston Partners
15-March	Artisan*
19-April	Ariel* (Terminated)
17-May	
21-June	
19-July	Adams Street Partners and ING Clarion
16-August	Capital Guardian and GMO
20-September	
18-October	Loomis Sayles (both Core and High Yield)
15-November	Westfield Capital
20-December	JP Morgan

\* Subject to additional performance review at the Investment Committee meeting prior to the Pension Board meeting. Managers are not required to attend Investment Committee meetings.

**Notes:**

The format and timings of all investment manager presentations are to be dictated by the Pension Board. Suggested discussion outline attached for all but venture capital, real estate managers and Loomis Sayles (who have to present two strategies under management). The middle of the year has been deliberately left less crowded to allow manager presentations to be brought forward should issues arise. This would also serve to free up the final quarter of the year.

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